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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002015

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [EAIR](#) [ETRD](#) [IZ](#)

SUBJECT: CORRECTED COPY: FINANCE MINISTER JABR ON BUDGET
AND GOVERNMENT DEBT

REF: A. BAGHDAD 1437
[B](#). BAGHDAD 1146
[C](#). BAGHDAD 986
[D](#). BAGHDAD 643

Classified By: Ambassador Patricia Haslach for reasons 1.4 (b,d)

[1](#). (C) Summary: The DCM for Assistance Transition, BG Lanza, Emin, and Finatt met July 16 with Minister of Finance Jabr, Special Advisor to the Minister of Finance Dr. Aziz, and Central Bank of Iraq Governor Shabibi to introduce the DCM and discuss a variety of issues. Minister Jabr discussed the 2009 supplemental budget and the CoR debate on the issuance of debt for payments to General Electric. He responded to questions about funding for the parliamentary election, payments to the air traffic controller contractor, additional funds for the Ministry of Electricity, and funding for the Sons of Iraq, all of which would be included in a 2009 supplemental budget. Minister Jabr, Dr. Aziz and Governor Shabibi discussed the microfinance initiative of the IFC and the findings of the Department of the Treasury advisor reviewing the government debt securities market. End Summary.

2010 budget outlook

[2](#). (C) In response to the DCM's question about current developments, the Minister explained that he was busy with a high level committee of cabinet officials developing the budget strategy for 2010 and later years. He noted that the assumptions for oil prices were tentatively set at \$58 a barrel for the 2010 budget with export sales of 2.15 million barrels a day, on average. Oil prices were assumed to be \$63 for 2011 and \$68 for 2012. He explained that these were a bit higher than IMF forecasts but within the range of OPEC estimates. This, in his view was conservative. June was a good month for oil revenues and the first half of July has witnessed exports of around 2.1 million barrels a day. The discussion turned to the benefits of using conservative estimates, given the vagaries of the oil market, and the benefits of a medium term framework for budget planning purposes.

2009 Supplemental Budget

[3](#). (C) Minister Jabr told the DCM for Assistance Transition and Finatt on July 16 that the Ministry of Finance is working on a supplemental budget for 2009. Among other measures (see below) the proposed supplemental would provide funds to Mosul (Ninewa) and Diyala provinces. This statement confirmed an earlier statement by Minister Jabr to EMIN and Finatt on June [3](#). Minister Jabr acknowledged that the IMF has called for conservative spending, but he repeated his words on June 3 that it is not justice to penalize Mosul and Diyala for having failed to execute their budgets due to violence in their provinces.

[4](#). (C) Funding for election preparations by IHEC also will be included in the 2009 supplemental budget, according to Minister Jabr. He did not provide any details on when the funds transfers will occur. He also mentioned USD 500 to 600 million for the Ministry of Electricity for projects, but, he was quick to add, not for GE payments.

General Electric Payments

¶15. (C) Minister Jabr expressed doubt about whether the Council of Representatives (CoR) will pass a measure authorizing the issuance of debt for payments to General Electric and Siemens. He felt that the amount of time that had passed indicates that the CoR may have turned against the measure. Finatt pointed out that the problem in passing the measure has been lack of sufficient attendance by CoR members, which has made it impossible to obtain the absolute majority of CoR members required to approve the issuance of bonds under Article 45 of the budget law. The measure passed Qbonds under Article 45 of the budget law. The measure passed with a substantial majority of 110 of 139 votes cast when the CoR voted on it in June. Finatt explained that the CoR Finance Committee has proposed to vote to change the requirement for passage from an absolute to a simple majority that would ease passage of the funding. (Note: the CoR on July 25 voted down a proposal to remove Article 45 from the budget law; the amendment to require only a simple majority is still possible. However, the Central Bank, Finance Ministry, and CoR Finance Committee continue to hammer out the details of a possible work-around.)

¶16. (C) Minister Jabr and the DCM also discussed the broader context of the problem of payments to General Electric and Siemens. Minister Jabr recalled the involvement of General Petraeus and Ambassador Crocker in the negotiation of the contract with General Electric, and pointed out that the problem exists because of the contract being finalized quickly but too late to be included in the budget process for ¶2009. He raised the possibility of reducing Iraq,s total payment obligation by first paying only General Electric, not Siemens. The DCM emphasized that the U.S. government is

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working to encourage U.S. investment in Iraq, and that Iraq,s treatment of leading American companies like General Electric and Boeing will have a significant effect on the willingness of U.S. firms to do business in Iraq. She indicated that positive news during the PM,s upcoming visit to Washington) during which business issues will feature prominently - would provide good news to those looking to invest in Iraq.

Jabr Visit to the United States

¶17. (C) Minister Jabr said that PM Maliki had asked him to travel as part of his delegation to Washington, but said he was too busy to leave Baghdad at this time. He said that he plans to visit the United States after the annual World Bank/IMF meeting in Istanbul in October. The DCM and Emin pointed out that a visit in October could coincide with an Iraq investment conference that will be hosted by the U.S. Chamber of Commerce in Washington, DC on October 20-21. That event would be preceded by a USG-Iraq meeting on economic issues, including finance, so the Minister,s visit would be timely. Finatt recalled that Trade Bank of Iraq (TBI) has a banking conference in Washington, DC planned for around that time. Minister Jabr thought that the TBI banking conference has been delayed because of the international banking conference that the Ministry of Finance will hold in Baghdad.

Emin and Finatt said that they would follow up with TBI to ensure no conflict of the events.

Iraq Financial Management Information System

¶18. (C) The DCM praised the progress made by the Ministry of Finance in implementing the Iraq Financial Management Information System (IFMIS). Minister Jabr stated that the Ministry of Finance is in the process of working on a memorandum of understanding with USAID on the completion of IFMIS implementation.

Air Traffic Controller Payments

¶9. (C) Asked by the DCM about the payments due to USG to pay the contractor providing air traffic controller training in Iraq, Minister Jabr explained that the issue arose in a Council of Ministers meeting the previous day. He indicated that before the end of the day he would give the order to make the \$9 million payment due under the contract. He stated further that there would be a total transfer of \$26 million for Ministry of Transportation initiatives, but could not provide details on the other expenses. The payments would be included in the 2009 supplemental budget.

Sons of Iraq

¶10. (C) Asked by BG Lanza and the DCM about the status of \$160 million intended for payments to the Sons of Iraq by the Ministry of Interior, Minister Jabr stated that the MOI is authorized to use funds from its existing 2009 budget to make these payments. The Minister said that the proposed 2009 supplemental budget would include \$160 million that would be allocated to the budget of the Ministry of Interior to compensate for these SOI payments.

¶11. (C) With the apparent purpose of emphasizing the limited funds available to him and the sacrifice that the payments to the Sons of Iraq represent, Minister Jabr explained further that he had refused additional funding for the Ministry of Defense. He said that he had met the Minister of Defense at his house two days earlier, and they agreed that the Ministry of Defense did not need additional funding.

Microfinance

¶12. (C) Finatt raised the topic of the microfinance initiative that the IFC is developing with the assistance of Qinitiative that the IFC is developing with the assistance of Treasury. Finatt outlined the IFC,s plans to provide capital for for-profit microfinance institutions in Iraq, and explained Treasury,s role assisting the IFC in working out the regulatory problems of registering and licensing the first such institution. Finatt explained that the Central Bank of Iraq (CBI) would be the regulator of a non-bank financial institution making microfinance loans, and that the CBI has not yet have regulations governing the licensing and operation of such entities. Minister Jabr stated his support for the initiative,, but Dr. Aziz quickly asserted that there are no laws authorizing such an institution and that neither the CBI nor the Company Registry at the Ministry of Trade could register such an entity. Governor Shabibi said that he would look into the issue, and the Minister asked Dr. Aziz to see if there was a way to allow the initiative to proceed.

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Dr. Aziz asked for a written proposal and stated that the CBI could lead on the issue.

Government Debt Advisor Report

¶13. (C) George Gianaris, the Treasury Department advisor visiting Baghdad to assess the state of Iraq,s market for government debt securities, delivered a presentation for Minister Jabr and Governor Shabibi that pointed out the underdevelopment of the government bond market. Mr. Gianaris first explained the importance to Iraq of government debt markets to moderate downturns in government revenue during periods of low oil prices. He then pointed out that he had advised on the creation of a government bond market in 2004, and that his assessment was that there had been a lack of progress since then. The investor base had shrunk, with up to 14 banks participating in auctions in the first auction but usually no more than five or six now. This week, there had been only three bidders in the debt auction. Only three month instruments are offered by the MOF, with the CBI offering six month bonds. Moreover, based on the low

interest rates offered, he believed that the GOI is a price setter in securities offerings, not a price taker in a normal bidding process. He urged Minister Jabr and Governor Shabibi to take steps to develop the market over time, pointing out that in his conservative estimate, the GOI could raise IDQ1.4 trillion next year with a more developed government debt market.

¶14. (C) Governor Shabibi and Dr. Aziz dominated the discussion in response to Mr. Gianaris, findings. Governor Shabibi agreed that the government debt securities market must be expanded, as it could provide an important revenue stream even though it would be small compared to oil export revenue. Dr. Aziz insisted that the Ministry of Finance had tried to develop the market, but that it had not been needed in previous years. He pointed out that bank managers in Iraq are not well educated or experienced in investing in government debt markets. He also pointed out that the CBI did not allow the pension fund or insurance companies to invest directly in the market, but rather forcing them to go through banks, a less financially attractive proposition. The Minister, Governor Shabibi and Dr. Aziz agreed that the time was right to develop a new strategy for the government debt security market. Finatt acknowledged that developing the government debt securities market will take time; it will be necessary to develop a strategy, and then to inform the market. The Minister expressed appreciation for the brief and in his interest in following up the report.

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